

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2620-01
BILL NO.: SB 638
SUBJECT: Minorities, Taxation and Revenue - Income: Revenue Department
TYPE: Original
DATE: December 28, 1999

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$10,127,087)	(\$10,128,699)	(\$10,132,016)
Total Estimated Net Effect on <u>All</u> State Funds	(\$10,127,087)	(\$10,128,699)	(\$10,132,016)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal note information, but based on a very similar bill (SB 728 from 1999), they assumed that the Missouri Minority Business Advocacy Commission would delegate administration of the tax credit to DED.

DED stated the U.S. Census Bureau says there are 15,437 minority businesses in Missouri. If each minority business received an equal share of the \$10 million tax credits available that would be \$648 each or \$6,480 in sales that would qualify for the credit. It is highly likely that the total \$10 million in tax credits would be used each year.

DED assumed that the amount of sales authorized for each minority business would be certified to the Department of Revenue (DOR) per the proposal.

DED assumed that certification from the seller of the amount of purchases by taxpayers is essential for DOR to know what taxpayers have authorized credits and qualify for the credit or refund. Certification of the individual credit amount to DOR by DED is required by the proposal. That is why the response requests additional temporary services funds.

DED would request that minority businesses provide a list of names, addresses, social security numbers etc. of qualified purchases and the amount of the authorized credit. This information would then be certified to DOR. DED assumes that DOR would require that a copy of the paid receipt(s) be submitted with the tax return to receive the credit.

The credit could be claimed for any thing from purchase of bubble gum to houses. Minority business could have as few as one sale each which would amount to 15,437 tax credit claims by individuals to as many as 100 million credits authorized by minority businesses if each sale averaged \$1. The minority business that receives authorization to make qualified sales is required to issue the credit to any purchaser. DED states the assumption is made that retail establishments making sales of small amounts may not want to be burdened with paper work (keeping a list of name, address, SSN etc) on each sale. This requirement would, most likely, reduce the amount of qualified sales.

Without any experience in this type of credit, a random assumption was made that 50% of the minority businesses will seek approval and make an average sale of \$50.00 for an average of 260 sales each. $100,000,000.00$ divided by $(15,437 \text{ times } 50\%)$ would equal $12,956$ qualified sales by each minority business divided by \$50 for an average of 260 sales each. This would mean

ASSUMPTION (continued)

7,719 or (50% of 15,437) reports would be sent by businesses to DED for review with 260 sales listed on each report. The assumption is that the reports would be due once per year on or about January 15. Reports would be processed in 3.22 (see calculation of processing time below) weeks by the temporaries and certification sent to DOR for use when processing tax returns for the prior year that are due April 15.

DED assumes that it would take One (1) Economic Development Specialist II (\$32,952), One (1) Economic Development Specialist I (\$26,964), One (1) Clerk Typist II (\$19,452), and temporary clerical help from state contract at \$8 per hour to open, review, and prepare for certification to DOR at 15 per hour. 7,719 divided by 15 equals 514.6 hours times \$8 per hour = \$4,155 This would be used to hire 4 people for an average of 3.22 weeks. DED stated this is an estimate based on assumptions and personnel/expenses for temporary help could change with actual experience. Related expense and equipment including system furniture, phones, fax, and expenses for travel, communications, office and professional development plus floor space rental.

Oversight assumes no additional rental space would be required.

Officials from the **Department of Revenue (DOR)** did not respond to our fiscal impact request. However, in responding to a similar proposal, DOR stated the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation and Collection would need one (1) Tax Processing Technician I for every 8,750 credits claimed to process these credits.

DOR also stated the proposal would require modifications to the income tax system, income tax return, and schedules that would be completed with existing resources.

The **Office of Administration** officials defered to the Department of Economic Development on revenue projections.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss - General Revenue Fund

Tax credits on minority purchases	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2001 (6 Mo.)	FY 2002	FY 2003
<u>Cost - Department of Economic Development</u>			
Personal service (3 FTE)	(\$67,794)	(\$83,386)	(\$85,471)
Fringe benefits	(\$20,847)	(\$25,641)	(\$26,282)
Expense and equipment	(\$38,446)	(\$19,672)	(\$20,263)
Total <u>Cost</u> - DED	<u>(\$127,087)</u>	<u>(\$128,699)</u>	<u>(\$132,016)</u>

**ESTIMATE NET EFFECT ON
 GENERAL REVENUE FUND** **(\$10,127,087) (\$10,128,699) (\$10,132,016)**

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent there would be increased administrative costs due to the record keeping that would be required for the tracking of a small business purchases from a minority business.

DESCRIPTION

This proposal would authorize a state income tax credit equal to ten percent of all purchases of goods or services from a minority business enterprise which has been approved by the Governor's Commission on Minority Business Development. The credit would be limited to one hundred thousand dollars per taxpayer for each taxable year. If the amount of the credit exceeds the taxpayer's tax liability, the difference would be refundable. The total amount of the credit which may be taken during any one taxable year is limited to ten million dollars. Knowingly providing goods and services for qualified payments in excess of the limits established by the Commission would be a Class A misdemeanor.

The proposal applies to all taxable years beginning after December 31, 2000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. NO. 2620-01
BILL NO. SB 638
PAGE 5 OF 5
December 28, 1999

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Office of Administration
Division of Budget and Planning



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December 28, 1999